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REDACTED – FOR PUBLIC INSPECTION

Via Courier

FILED/ACCEPTED

EX PARTE

AUG – 2 2007

August 2, 2007

Federal Communications Commission  
Office of the Secretary

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

ORIGINAL

Re: In the Matter of Petition of Qwest Corporation for Waiver of Depreciation  
Regulation Pursuant to 47 C.F.R. § 1.3 – WC Docket No. 05-259  
Request for Confidential Treatment and Justification

Dear Ms. Dortch:

Qwest Corporation ("Qwest") requests confidential treatment of certain information contained in the Attachments to the appended letter from Philip E. Grate, Qwest, to Marlene H. Dortch, for filing with the Federal Communications Commission ("Commission" or "FCC") in the above-captioned proceeding (hereafter referred to as "Attachments"). The letter from Mr. Grate responds to two questions posed to Qwest by Ms. Deena Shetler of the Wireline Competition Bureau in an e-mail to Ms. Melissa Newman of Qwest on July 20, 2007.

The three attachments are entitled as follows: "Three Largest Accounts -- Difference in Net Plant Balances between FCC Books and Financial Reporting Books assuming Qwest had not changed depreciation rates for FCC accounting purposes effective January 1, 2006"; "January 1, 2007 Net Book Detail assuming Qwest had not changed depreciation rates on its FCC (MR) Books effective January 1, 2006 (\$000)"; and "Attachment A -- FR/MR Net Plant Differences as of January 1, 2007 assuming Qwest had not changed depreciation rates on its FCC (MR) Books effective January 1, 2006 (\$M)". For these Attachments only the data that is confidential has been redacted. The Attachments with confidential information (that is, the non-redacted versions) have been marked "**CONFIDENTIAL – NOT FOR PUBLIC INSPECTION**". Qwest requests that the non-redacted, confidential versions of the Attachments be withheld from public inspection. Both this request and the letter from Mr. Grate contain no confidential information.

Qwest considers certain information contained in the Attachments pertaining to detailed data associated with GAAP depreciation, hypothetical FCC depreciation reserve levels as of

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January 1, 2007, and differences between GAAP depreciation and regulated depreciation data to be confidential. This information is confidential financial information that is “not routinely available for public inspection.” As such, Qwest requests confidential treatment of this information and is submitting non-redacted versions of the Attachments pursuant to both FCC rules 47 C.F.R. §§ 0.457(d) and 0.459. Pursuant to Commission rule, 47 C.F.R. § 0.459(b), Qwest provides justification for the confidential treatment of this information in the Appendix to this letter.

Qwest is simultaneously submitting, under separate cover, the redacted versions of both Attachments, which are marked “**REDACTED - FOR PUBLIC INSPECTION**”, wherein the confidential information has been omitted. Both the redacted and non-redacted versions of these Attachments are being served on Staff of the Commission’s Wireline Competition Bureau as indicated below.

Included with both the non-redacted and redacted submissions is the same copy of the letter from Mr. Grate to Ms. Dortch, also dated August 2, 2007. For the non-redacted version of this submission, Qwest is filing an original and one copy, along with a second copy to be stamped and returned to the courier. For the redacted version, Qwest is filing an original and four copies, along with a fifth copy to be stamped and returned to the courier.

If you have any questions concerning this submission, please call me on 303-383-6608.

Sincerely,

/s/ Timothy M. Boucher

Attachments

Copy (via e-mail) to:

Al Lewis ([albert.lewis@fcc.gov](mailto:albert.lewis@fcc.gov))

Deena Shetler ([deena.shetler@fcc.gov](mailto:deena.shetler@fcc.gov))

## APPENDIX

### Confidentiality Justification

Qwest requests confidential treatment of certain information provided in the Attachments to the letter from Philip E. Grate, Qwest, to Marlene H. Dortch, dated August 2, 2007, for filing with the Federal Communications Commission (“Commission”) in WC Docket No. 05-259 (hereafter referred to as “Attachments”). The letter from Mr. Grate responds to two questions posed to Qwest by Ms. Deena Shetler of the Wireline Competition Bureau in an e-mail to Ms. Melissa Newman of Qwest on July 20, 2007. Information contained in the Attachments is confidential financial information that is not routinely made available for public inspection. Such information should be afforded confidential treatment under both 47 C.F.R. § 0.457(d) and § 0.459.

#### 47 C.F.R. § 0.457(d)

Information contained in the Attachments is confidential and proprietary to Qwest as “commercial or financial information” under Section 0.457(d). Disclosure of such information to the public would risk revealing company-sensitive proprietary financial information. Therefore, in the normal course of Commission practice this information should be considered “Records not routinely available for public inspection.”

#### 47 C.F.R. § 0.459

Specific information in the Attachments is also subject to protection under 47 C.F.R. § 0.459, as demonstrated below.

#### Information for which confidential treatment is sought

Qwest requests that the information contained in the Attachments be treated on a confidential basis under Exemption 4 of the Freedom of Information Act. This information is competitively-sensitive financial information which Qwest maintains as confidential and is not normally made available to the public. Release of the information could have a substantial negative competitive impact on Qwest. The confidential information is contained in the non-redacted version of Qwest’s Attachments, which are marked with the following legend: **CONFIDENTIAL – NOT FOR PUBLIC INSPECTION.**

#### Commission proceeding in which the information was submitted

The information is being submitted in *In the Matter of Petition of Qwest Corporation for Waiver of Depreciation Regulation Pursuant to 47 C.F.R. § 1.3* – WC Docket No. 05-259.

Degree to which the information in question is commercial or financial, or contains a trade secret or is privileged

The financial information designated as confidential is commercial and financial information in the form of detailed data associated with GAAP depreciation and differences between GAAP and regulated depreciation data. As noted above, the data is commercially and financially-sensitive information which is not normally released to the public as such release could have a substantial negative competitive impact on Qwest.

Degree to which the information concerns a service that is subject to competition; and manner in which disclosure of the information could result in substantial competitive harm

The type of competitively-sensitive financial information in the Attachments would generally not be subject to routine public inspection under the Commission's rules (47 C.F.R. § 0.457(d)), which demonstrates that the Commission already anticipates that the release of this kind of information likely would produce competitive harm. Qwest confirms that release of its confidential and proprietary information would cause it competitive harm by allowing its competitors to become aware of sensitive proprietary financial information regarding the operation of Qwest's business.

Measures taken by Qwest to prevent unauthorized disclosure; and availability of the information to the public and extent of any previous disclosure of the information to third parties

Qwest has treated and treats the information disclosed in its non-redacted *ex parte* as confidential and has protected it from public disclosure to parties outside of the company.

Justification of the period during which Qwest asserts that the material should not be available for public disclosure

Qwest cannot determine at this time any date on which this information should not be considered confidential or would become stale for purposes of the current proceeding, except that the information would be handled in conformity with general Qwest records retention policies, absent any continuing legal hold on the data.

Other information that Qwest believes may be useful in assessing whether its request for confidentiality should be granted

Under applicable Commission and court rulings, the information in question should be withheld from public disclosure. Exemption 4 of the Freedom of Information Act shields information that is (1) commercial or financial in nature; (2) obtained from a person outside government; and (3) privileged or confidential. The information in question satisfies this test.



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**Philip E. Grate**  
Director – State and Federal Relations

## EX PARTE

August 2, 2007

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

Re: *In the Matter of Petition of Qwest Corporation for Waiver of Depreciation  
Regulation Pursuant to 47 C.F.R. § 1.3 – WC Docket No. 05-259*

Dear Ms. Dortch:

On July 22, 2005 Qwest Corporation ("Qwest") filed a petition seeking waiver of the Federal Communications Commission's ("Commission") depreciation prescription process in accordance with the waiver requirements the Commission established in the *USTA Depreciation Order*.<sup>1</sup>

On May 30, 2007 Qwest filed an *ex parte* regarding the above-captioned proceeding containing responses to five questions from the Wireline Competition Bureau. On June 20, 2007, Phil Grate, in person, and Tim Boucher, Jerome Mueller and Glenda Weibel, by telephone, all of Qwest, and Jim Hannon, by telephone, representing Qwest, met with Albert Lewis, Deena Shetler, Cindy Spiers and Doug Slotten of the Wireline Competition Bureau to discuss the answers Qwest filed May 30. On July 20, Ms. Deena Shetler sent Melissa Newman of Qwest an e-mail asking two follow up questions. Following are Ms. Shetler's questions and Qwest's responses.

### Question 1:

With regard to the charts attached to Qwest's May 30 *ex parte*, in response to Question 3 on page 7, you provided information on the three largest accounts' net plant differences. Please provide that same information assuming that Qwest had not made the technical update. Please also provide the same "Attachment A" you provided with your May 30 *ex parte* but assume that Qwest had not made the technical update.

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<sup>1</sup> *In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers: United States Telephone Association's Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers*, Report and Order in CC Docket No. 98-137, Memorandum Opinion and Order in ASD 98-91, 15 FCC Rcd 242 (1999).

Ms. Marlene H. Dortch  
August 2, 2007

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Response:

Attached is a printout of a Microsoft Excel workbook which contains three worksheets.

Page 1 of 3 is a worksheet entitled “**Three Largest Accounts**” that summarizes the difference in net plant between Qwest’s FCC books and Financial Reporting books assuming Qwest had not changed its depreciation rates for FCC accounting purposes effective January 1, 2006. The worksheet provides beginning of year balances and annual activity for each of the three largest accounts, all other accounts and the aggregate of all accounts.

Page 2 of 3 is a worksheet entitled “**Net Book Detail**” that provides investment, reserve and net plant balances by account as of January 1, 2007 on Qwest’s FCC books and Financial Reporting books assuming Qwest had not changed depreciation rates for FCC accounting purposes effective January 1, 2006.

Page 3 of 3 is a worksheet entitled “**Attachment A**” that provides a breakdown of Net Plant Differences between Qwest’s FCC (MR) books and Financial Reporting (FR) books as of January 1, 2007 assuming Qwest had not changed depreciation rates on its MR Books effective January 1, 2006. The worksheet shows by account Qwest’s MR reserves, FR reserves, the difference between Qwest’s MR and FR reserves, the amount of the MR/FR reserve difference attributable to differences in accounting for cost of removal (COR) under FAS 143 and the amount of MR/FR reserve difference attributable to parameters and timing differences. The worksheet also shows the amount of the MR/FR net plant difference attributable to other investment differences and the total MR/FR net plant difference.

Question 2:

How many Qwest states set their own depreciation rates and how many use the FCC lives?

Response:

For the most part state regulatory commissions have abandoned the practice of prescribing Qwest’s depreciation rates. With the exception of Arizona, no state regulatory commission has released a depreciation prescription order for Qwest in this decade. In several states, Qwest no longer reports depreciation expense to the state commission.

The Arizona Corporation Commission (“ACC”) is the exception. The ACC issued a depreciation prescription order in 2000. In 2006 the ACC issued Decision No. 68604 adopting (with modifications not relevant here) a settlement agreement for an alternative form of regulation plan. The settlement agreement provided for Qwest to lengthen its asset lives and reduce its depreciation rates on its Arizona jurisdictional (JR) books.

Qwest currently uses state regulatory commission prescribed depreciation lives and factors in seven states, including Arizona. In these seven states Qwest maintains two sets of regulatory books—the JR books, which are state jurisdictional books, and the MR books, which are kept for FCC reporting purposes.

In its other seven states, Qwest keeps one set of books—the MR books—for both FCC and state regulatory purposes. Qwest no longer maintains JR books in these seven states largely because they do not rely on cost of service regulation. Instead, the state regulatory commissions in these seven states regulate Qwest under alternative forms of regulation that are unconcerned with cost of service measures such as depreciation expense.

The seven-to-seven split will probably become eight-to-six. On July 24, 2007 the Washington Utilities and Transportation Commission (“WUTC”) issued Order No. 6 in Docket UT-061624. The order adopts an alternative form of regulation for Qwest. Among other things, Order No. 6 allows Qwest to discontinue JR accounting and to keep one set of books—its MR books—for both FCC and Washington regulatory purposes. The pertinent language follows:

Qwest will keep its books of accounts in accordance with WAC 480-120-355. The accounting method that Qwest commits to use is the same accounting method that it uses to maintain its books for FCC reporting purposes (MR Books).

\* \* \*

Qwest shall file an annual report of Washington intrastate regulated results of operations. The report shall be based on Qwest’s MR Books and shall include the following adjustments:

- a) a directory revenue credit in the amount specified by the settlement agreement the Commission approved in the Dex case;
- b) a credit to its depreciation reserve required for prior sale of rural exchanges;
- c) a credit to its depreciation reserve for sharing under a prior AFOR; and
- d) a standing adjustment reflecting the difference in rate base between its MR Books and its Washington Jurisdictional Books of Account (JR Books) on the date of transition from JR books to MR Books.

The language regarding discontinuance of JR accounting is found in a settlement agreement between the WUTC Staff and Qwest. As the parties entered into settlement negotiations Qwest made sure the WUTC Staff was fully informed of Qwest’s petition for waiver of the Commission’s depreciation rules and of Qwest’s expectation that the Commission would grant the petition. It is my understanding and belief that by agreeing to the language quoted above the WUTC Staff did not consider the Commission’s granting of Qwest’s petition to be problematic in the ongoing regulation of Qwest in Washington. The WUTC’s order is not yet effective.

Ms. Marlene H. Dortch  
August 2, 2007

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I look forward to answering any questions you might have about these responses and to discussing Qwest's waiver petition this Friday, August 3.

Sincerely,

/s/ Philip E. Grate

Copy (via e-mail) to:

Al Lewis ([albert.lewis@fcc.gov](mailto:albert.lewis@fcc.gov))  
Deena Shetler ([deena.shetler@fcc.gov](mailto:deena.shetler@fcc.gov))



Qwest Corporation  
070802 WC 05-259 Attachment Redacted.xls  
Three Largest Accounts

Difference in Net Plant Balances between FCC Books and  
Financial Reporting Books assuming Qwest had not changed  
depreciation rates for FCC accounting purposes effective  
January 1, 2006

	Difference at	2005	Difference at	2006	Difference at
2212 Digital Sw Equip					
2232 Circuit					
2423 Buried Cable					
Three Largest Accounts					
All Other Accounts					
All Accounts		(41)	521,424	521,383	

Qwest Corporation  
070802 WC 05-259 Attachment Redacted.xls  
Net Book Detail

January 1, 2007 Net Book Detail assuming Qwest had not changed depreciation rates on its FCC (MR) Books effective January 1, 2006 (\$000)

Category	Financial Reporting (FR)			FCC Reporting (MR)			Net Plant	Reserve Percent	
	Investment a	Reserve b	Net Plant c=a+b	Investment d	Reserve e	Net Plant f=d+e	Difference g=c-f	FR h=b/a	MR i=e/f
AND				94,489					
OTOR VEHICLES				373,448					
RCRAFT				1,875					
TOOLS AND OTHER WORK EQUIP				327,202					
UILDINGS				2,680,424					
URNITURE				4,285					
RTWORKS				1,130					
FFICE EQUIPMENT				62,140					
EN PURPOSE CMPTR				834,476					
ENERAL SUPPORT				4,379,468					
ANALOG SW EQUIP				0					
DIGITAL SW EQUIP				7,437,046					
PERATOR SYSTEMS				11,367					
ADIO SYSTEMS				223,342					
IRCUIT				11,025,803					
ENTRAL OFFICE				18,697,559					
TATION APPARATUS				4,023					
ARGE PBX				0					
UBLIC TELEPHONE EQUIPMENT				0					
OTHER TERMINAL EQUIPMENT				436,600					
FORMATION ORGINATION / TERMINATION				440,623					
OLE LINES				268,144					
ERIAL CABLE				1,385,041					
NDERGROUND CABLE				3,553,252					
URIED CABLE				11,169,104					
UBMARINE CABLE				11,691					
ITRABUILDING CABLE				407,046					
ERIAL WIRE				42,617					
ONDUIT SYSTEMS				2,397,366					
ABLE AND WIRE				19,234,259					
PIS (before amortizable assets)				42,751,909					
APITAL LEASE				32,007					
EASEHOLD IMPROVEMENTS				92,839					
MORTIZABLE TANGIBLE ASSETS				124,847					
TANGIBLES				1,249,632					
TELEPHONE PLANT IN SERVICE				44,126,387					
PLANT UNDER CONSTRUCTION				99,583					
ON-OPERATING PLANT				6,090					
PLANT UNDER CONST AND NON-OP				105,673					
GRAND TOTAL	44,613,564	(31,266,779)	13,346,786	44,232,060				70.1%	

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RESPONDING ARMIS ROWS 210 / 340 / 350

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Qwest Corporation  
070802 WC 05-259 Attachment Redacted.xls  
Attachment A

**FR / MR Net Plant Differences as of January 1, 2007 assuming Qwest had not changed depreciation rates on its FCC (MR)  
Books effective January 1, 2006 (\$M)**

Category	FR Reserve	MR Reserve	Reserve Difference	FAS 143 COR Amount	Parameter and Timing Differences
	a	b	c=b-a	d	e=c-d
MOTOR VEHICLES					
AIRCRAFT					
SPEC PURPOSE VEHICLE					
GARAGE WORK EQUIP					
OTHER WORK EQUIP					
BUILDINGS					
FURNITURE					
OFFICE EQUIPMENT					
COMPANY COMM EQUIP					
GEN PURPOSE CMPTR					
ANALOG SW EQUIP					
DIGITAL SW EQUIP					
OPERATOR SYSTEMS					
RADIO SYSTEMS					
CIRCUIT DDS					
CIRCUIT DIGITAL					
CIRCUIT ANALOG					
OTHER TERM EQUIP					
POLE LINES					
AERIAL CABLE MET					
AERIAL CABLE NON MET					
UNDGRD CABLE MET					
UNDGRD CABLE NON MET					
BURIED CABLE MET					
BURIED CABLE NON MET					
SUB CABLE MET					
SUB CABLE NON MET					
INTRA BLDG CA MET					
INTRA BLDG NON MET					
AERIAL WIRE					
CONDUIT SYSTEMS					
Sub - Total					
Non Regulated Accts					
CIAC					
Intangibles & Other					
<b>Total Reserve Difference</b>					
Other Investment Difference					
<b>Total Net Plant Difference</b>					